

Message Text

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PAGE 01 EC BRU 01544 171747Z
ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 NSCE-00 INR-05 CIAE-00
EB-03 OMB-01 TRSE-00 SP-02 L-01 /040 W
-----171752 081363 /50/43

R 171310Z FEB 77
FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 3066
INFO ALL EC CAPITALS 3160
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM

C O N F I D E N T I A L EC BRUSSELS 1544

LIMDIS

C O R R E C T E D C O P Y (TEXT)

E.O.11652: GDS
TAGS: EFIN EEC
SUBJECT: FEBRUARY 14 MEETING OF SNAKE MINISTERS AND CENTRAL
BANK GOVERNORS

1. SUMMARY. IN BRIEF FEBRUARY 14 MEETING, FINANCE MINISTERS AND CENTRAL BANK GOVERNORS OF SNAKE COUNTRIES DISCUSSED RECENT DEVELOPMENTS IN FUNCTIONING OF SNAKE, ECONOMIC SITUATIONS IN SNAKE COUNTRIES, AND RELATION OF SNAKE TO DOLLAR. PARTICIPANTS CONGRATULATED THEMSELVES ON RECENT SMOOTH OPERATION OF SNAKE, PUT PRESSURE ON SURPLUS COUNTRIES TO TAKE EXPANSIONARY MEASURES, AND AGREED ON NEED FOR BETTER MONETARY COORDINATION TO SMOOTH OUT EXCESSIVE SNAKE-DOLLAR MOVEMENTS. END SUMMARY

2. MISSION OFFICER RECEIVED BRIEFING ON 1 3/4 HOUR MEETING OF FINANCE MINISTERS AND CENTRAL BANK GOVERNORS OF SNAKE COUNTRIES HELD MORNING OF FEBRUARY 14 IN BRUSSELS. NO EC COMMISSION OFFICIALS WERE PRESENT AT THE MEETING.

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3. THE PARTICIPANTS IN THE SNAKE MEETING BRIEFLY REVIEWED THE "SMOOTH OPERATION" OF THE SNAKE SINCE THE LAST RE-ALIGNMENT. MINIMAL AMOUNTS OF INTERVENTION HAVE BEEN REQUIRED, SUGGESTING THAT RATES CONTINUE TO BE SOUND. BELGIAN REP (DECLERQ) SAID RE-ALIGNMENT HAD MADE POSSIBLE BETTER BELGIAN MONETARY POLICY (I.E., LOWER INTEREST RATES). COUNTRIES WITH WEAKER BALANCE OF PAYMENTS POSITIONS, SUCH AS SWEDEN AND DENMARK, DID NOT CONSIDER

FURTHER ADJUSTMENTS NECESSARY. (SWEDISH HAD NEEDED TO INTERVENE RECENTLY IN FACE OF RUMORS ABOUT BALANCE OF PAYMENTS PROBLEMS, BUT NOT A VERY LARGE AMOUNT.)

4. GERMAN REPRESENTATIVES JOINED SELF-CONGRATULATORY TONE OF MEETING, BUT WARNED THAT ANY FURTHER NEEDED ADJUSTMENTS IN THE FUTURE SHOULD COME EARLIER, BEFORE SPECULATIVE PRESSURES HAD BUILT UP. SWEDISH REPRESENTATIVE GAVE SUPPORT TO THIS POINT.

5. BELGIANS AND NORWEGIANS LED OFF DISCUSSION OF GENERAL ECONOMIC SITUATION, POINTING OUT CONTINUING DISPARITIES IN BALANCE OF PAYMENTS POSITIONS OF MEMBER COUNTRIES, AND CALLING ON SURPLUS COUNTRIES TO TAKE MEASURES TO STIMULATE STRONGER EXPANSION THEREBY REDUCING BOTH UNEMPLOYMENT AND CURRENT ACCOUNT SURPLUSES.

6. DUTCH AND GERMAN REPRESENTATIVES PROTESTED AGAINST THIS PRESSURE. DUTCH ARGUED THAT EXPANSIONARY FISCAL POLICY WOULD NOT SOLVE UNEMPLOYMENT PROBLEM, WHICH WAS STRUCTURAL, AND NEED TO FINANCE RESULTANT BUDGETARY DEFICIT WOULD UNDERMINE MONETARY POLICY AND THEREFORE EVENTUALLY BE INFLATIONARY. THE DUTCH CURRENT ACCOUNT SURPLUS WAS BOTH STRUCTURAL AND TEMPORARY, OWING TO NATURAL GAS EXPORTS. INSTEAD, THE SOLUTION WAS TO EXPORT LONG TERM CAPITAL. THE DUTCH BASIC BALANCE WAS IN EQUILIBRIUM.

7. THE GERMAN REPRESENTATIVE (APEL) NOTED THAT SIMILAR PRESSURE WAS BEING PUT ON GERMANY FROM INTERNATIONAL ORGANIZATIONS, AND "OUR OTHER GOOD FRIENDS." HE RESISTED THE IDEA THAT FISCAL POLICY SHOULD BECOME MORE EXPANSIONARY. THERE WAS A LACK OF WORTHWHILE CONFIDENTIAL

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PUBLIC SECTOR PROJECTS (BEYOND PROGRAM CURRENTLY ENVISAGED). GERMAN HOUSEHOLD INCOMES AND SAVINGS WERE ALREADY HIGH, AND TAX REDUCTION WOULD SIMPLY GO INTO ADDITIONAL SAVING. HE WAS ALSO AFRAID OF THE HIGHER INTEREST RATES THAT MIGHT RESULT; KEEPING LOWER RATES WAS IMPORTANT SO AS TO ENCOURAGE INVESTMENT DEMAND. HE POINTED TO RECENTLY PUBLICIZED DATA SHOWING A HIGH RATE OF GROWTH IN GERMAN IMPORTS.

8. APEL SUGGESTED THAT THE FORTHCOMING SUMMIT MEETING WOULD HAVE BENEFICIAL EFFECTS PRIMARILY THROUGH IMPROVING PUBLIC CONFIDENCE RATHER THAN THROUGH POLICY ADJUSTMENTS. (OTHER PARTICIPANTS INTERPRETED THIS AS A WARNING THAT GERMANY WOULD NOT YIELD TO PRESSURES FOR MORE STIMULUS AT THE SUMMIT.)

9. EMMINGER FOLLOWED UP APEL'S REMARKS BY REFERRING TO US CONGRESSIONAL TESTIMONY BY PROF. KLEIN THAT THE DM OUGHT TO BE REVALUED. ACCORDING TO OUR SOURCE, EMMINGER RIDICULED THE STATEMENT. THE DM WAS, AFTER ALL, FLOATING. GERMANY WOULD STICK TO ITS RUMBOUILLET COMMITMENT TO SMOOTH OUT ERRATIC MOVEMENTS ONLY.

10. DE STRYCKER, GOVERNOR OF NATIONAL BANK OF BELGIUM, ARGUED STRONGLY THAT MOVEMENTS IN THE EXCHANGE RELATIONSHIPS BETWEEN THE DOLLAR AND SNAKE CURRENCIES HAD BEEN ALMOST ENTIRELY DUE TO CHANGES IN RELATIVE INTEREST RATES, AND NOT JUSTIFIED BY FUNDAMENTAL FACTORS. THEREFORE, THERE OUGHT TO BE MORE COORDINATION OF INTEREST RATE POLICY TO HELP AVERT UNWARRANTED EXCHANGE RATE MOVEMENTS. (APEL CLARIFIED THAT THIS MUST MEAN COORDINATION BETWEEN THE SNAKE AND THIRD COUNTRIES.) THE TOPIC WAS NOT PURSUED MUCH FURTHER, SINCE THE MEETING HAD TO BE ADJOURNED TO ENABLE PARTICIPANTS TO ATTEND THE EC FINANCE MINISTERS LUNCHEON. HOWEVER, OUR SOURCE SAID THERE SEEMED TO BE GENERAL ACQUIESCENCE TO DE STRYCKER'S POINT. MORRIS

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MINISTERIAL MEETINGS, REGIONAL ORGANIZATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 17-Feb-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ECBRU01544
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770057-0124
Format: TEL
From: EC BRUSSELS
Handling Restrictions:
Image Path:
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Legacy Key: link1977/newtext/t19770233/aaaabcwz.tel
Line Count: 128
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9fcea1c5-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3299459
Secure: OPEN
Status: NATIVE
Subject: FEBRUARY 14 MEETING OF SNAKE MINISTERS AND CENTRAL BANK GOVERNORS
TAGS: EFIN, OCON, ECIN, EEC, SNAKE
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9fcea1c5-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009